

RECEIVED

BEFORE THE PUBLIC SERVICE COMMISSION

MAR 30 2006

In the Matter of:

PUBLIC SERVICE
COMMISSION

ALLEGED FAILURE OF THE CITY OF NORTH)
MIDDLETOWN TO COMPLY WITH KRS 278.160)
AND 278.180 AND THE COMMISSION'S ORDER)CASE NO.2006-00072
OF AUGUST 10, 1994 IN ADMINISTRATIVE)
CASE NO. 351)

RESPONSE TO SHOW CAUSE ORDER

Comes now the City of North Middletown, by counsel, and for its Response To Show Cause Order issued by the Public Service Commission on February 24, 2006, states as follows:

1. Attached hereto as Exhibit 1, (which is also in the record of this case as Exhibit 1 to the Commission's Order), is the Water Purchase Contract between the City of North Middletown, P.O. Box 69, North Middletown, Kentucky 40357 (City or North Middletown) and the Judy Water Association, Inc., 5031 Maysville Road, Mount Sterling, Kentucky 40353 (Judy Water).

2. Exhibit 1 has Paragraph #16, as follows:

16. (Purchased Water Adjustment) Seller shall be allowed to "pass through" to Purchaser, all increases in prices from its supplier, Kentucky American Water Company, and the parties agree that the provisions of 807 KAR 5:068, as now or may be in effect (and if repealed, the most recent regulation governing the subject matter, unless replaced by another regulatory scheme, which shall then apply), "Purchased Water Adjustment For Water

Districts and Water Associations” shall apply to this clause of this Agreement, and the Seller and any successor as set forth herein shall be determined to be, for purposes of that regulation, the Water District or Water Association as set forth therein.

3. Attached hereto as Exhibit 2 is the current Ordinance in effect establishing rates for City of North Middletown water users.

4. The Affidavit of Betsy Frazier, North Middletown City Clerk/Treasurer, and day to day administrator of the North Middletown water distribution system, is attached hereto and incorporated herein by reference in support of this Response.

5. Since the City of North Middletown has been providing water to Judy Water Association, it has followed the terms of its Water Purchase Contract in its entirety, as it understood the terms, especially the “rate increase pass through” provisions of Paragraph 16.

6. The price differential at all times has remained ten (\$.10) cents per thousand gallons for all water used up to 2,100,000 gallons per month, and at forty (\$.40) cents per thousand gallons for all water used in excess of that amount. That is the rate term of the original contract; that is the rate term of the current contract and billing.

7. Every rate increase that has been passed on to Judy Water by the City of North Middletown is a direct result of a rate increase by its supplier, Kentucky America Water Company.

8. Kentucky American Water Company, necessarily, must obtain the approval of this regulatory body prior to the imposition of any rate increase to its customers, and although the City of North Middletown has not technically complied with the administrative regulations of the Commission, the information has always been before the Commission, both in requested and approved rate increases imposed by its supplier, Kentucky American Water Company, and as requested and approved by its customer, Judy Water Association, which also must provide the same information to the Commission.

WHEREFORE, it is respectfully submitted that the City of North Middletown has shown cause, that although, it has technically not complied with the regulations of the Public Service Commission, such technical non-compliance is the result of following its contract with Judy Water Association, as it understood the agreement, resulting in the same water rate to Judy Water Association, as it understood the agreement, as would have applied were said regulations fully complied with by the City.

Further, the City of North Middletown, following an Informal Conference with the Staff of the Public Service Commission, will provide all documentation necessary to support its latest increase to Judy Water Association upon receiving guidance and instruction on how to so comply.

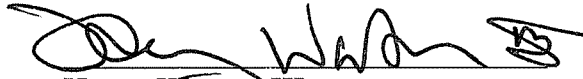
Respectfully submitted,



Henry Watson III
525 High Street, Suite 328
Paris, Kentucky 40361
Telephone: 859-987-6525
Fax: 859-987-6529
Counsel to the City of North
Middletown

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Response was hand delivered to Gerald E. Wuetcher, Esq., Assistant General Counsel of the Public Service Commission, 211 Sower Blvd., P.O. Box 615, Frankfort, Kentucky 40602-0615, this the 30th day of March 2006.



Henry Watson III

WATER PURCHASE CONTRACT

This contract for the sale and purchase of water is entered into as of the _____ day of October, 1999, between the _____
City of North Middletown, 223 Church Street, P.O. Box 69
North Middletown, Kentucky 40357, a municipal corporation of the Commonwealth of Kentucky of
the Fifth Class of Bourbon County
Hereinafter referred to as the "Seller" and the Judy Water Association, Inc, 5031 Maysville Road
Mt. Sterling, Kentucky 40353
Hereinafter referred to as the "Purchaser".

WITNESSETH:

Whereas, the Purchaser is organized and established under the provisions of Chapter 273 of the Code of Kentucky Revised Statutes, for the purpose of constructing and operating a water supply distribution system serving water users within the area described in plans now on file in the office of the Purchaser and to accomplish this purpose, the Purchaser will require a supply of treated water, and

Whereas, the Seller owns and operates a water supply distribution system with a capacity capable of serving the present customers of the Seller's system and the estimated number of water users to be served by the said Purchaser as shown in the plans of the system now on file in the office of the Purchaser, and

Whereas, by a Resolution of the Seller enacted on the 17th day of August, 1999, by the Seller, which (1) approved the sale of water to the purchaser in accordance with the provisions of this contract and (2) authorized the execution of this contract by the Mayor, and attested by the City Clerk.

Whereas, by Resolution of the Purchaser, enacted on the 19 day of October, 1999, by the Purchaser which (1) approved the purchase of water from the seller in accordance with the provisions of this contract and (2) authorized the execution of this contract by the Chairman of the Board of Judy Water Association, Inc. and attestation by the Secretary;

Now, therefore, in consideration of the foregoing and the mutual agreements hereinafter set forth,

A. The Seller Agrees:

1. (Quality and Quantity) To furnish the Purchaser at the point of delivery hereinafter specified, during the term of this contract or any renewal or extension thereof, potable treated water meeting applicable purity standards of the Division of Water, Kentucky Cabinet for Natural Resources and Environmental Protection in such quantity as may be required by the Purchaser not to exceed 2,100,000 gallons per month, at the rate of seventy thousand (70,000) gallons per day, as set forth in the attached Addendum A to Water Purchase Contract, incorporated herein by reference.

2. (Point of Delivery and Pressure) That water will be furnished at a reasonably constant pressure calculated at approximately thirty (30) psi from existing eight (8") inch and six (6") inch main supplies at points located as set forth in the attached Addendum A to Water Purchase Contract incorporated herein by reference.

If a greater pressure than that normally available at the point of delivery is required by the Purchaser, the cost of providing such greater pressure shall be borne by the Purchaser. Emergency failures of pressure or supply due to main supply line breaks, power

Exhibit 1

failure, flood, fire and use of water to fight fire, earthquake or other catastrophe shall excuse the Seller from this provision for such reasonable period of time as may be necessary to restore service.

3. (Meter Reading) Seller is responsible for reading metering devices. The metering equipment shall be read on a monthly basis. An appropriate official of the Purchaser at all reasonable times shall have access to its meters for the purpose of verifying their reading.

4. (Billing Procedure) To furnish the Purchaser at the above address not later than the 10th day of each month with an itemized statement of the amount of water furnished to the Purchaser during the preceding month.

B. The Purchaser Agrees:

1. (Rates and Payment Date) To pay the Seller, not later than the 20th day of each month, for water delivered at the rate of One Dollar and Ninety Five Cents (\$1.95) per 1,000 gallons.

2. (Connection Costs) To be responsible for all costs incurred in making all of the connections between the water distribution system of the purchaser and the seller.

3. (Metering Equipment) To be responsible for the obtaining of all real property and easements for purposes of installation, operation and maintenance of its equipment as contained herein. To furnish, install, operate, and maintain at its own expense at point of delivery, the necessary metering equipment, including a meter house or pit, and required devices of standard type for properly measuring the quantity of water delivered to the Purchaser and to calibrate such metering equipment whenever requested by the Seller but not more frequently than once every twelve (12) months. A meter registering not more than two percent (2%) above or below the test result shall be deemed to be accurate.

The previous readings of any meter disclosed by test to be inaccurate shall be corrected for the past twelve (12) months previous to such test in accordance with the percentage of inaccuracy found by such tests. If any meter fails to register for any period, the amount of water furnished during such period shall be deemed to be the amount of water delivered in the corresponding period immediately prior to the failure, unless Seller and Purchaser shall agree upon a different amount.

C. It is further mutually agreed between the Seller and the Purchaser as follows:

1. (Term of Contract) That this contract shall extend for a term of 45 years from the date of the initial delivery of any water as shown by the first bill submitted by the Seller to the Purchaser and, thereafter may be renewed or extended for such term, or terms, as may be agreed upon by the Seller and Purchaser.

2. (Delivery of Water) That 30 days prior to the estimated date of completion of construction of the Purchaser's water supply distribution system, the Purchaser will notify the Seller in writing the date for the initial delivery of water.

3. (Water for Testing) When requested by the Purchaser, the Seller will make available to the contractor at the point of delivery, or other point reasonably close thereto, water sufficient for testing, flushing, and trench filling the system of the Purchaser during construction.

4. (Failure to Deliver) That the Seller will, at all times, operate and maintain its system in an efficient manner and will take such action as may be necessary to furnish the Purchaser with quantities of water required by the Purchaser. Temporary or partial failures to deliver water shall be remedied with all possible dispatch. In the event of an extended shortage of water, or the supply of water available to the Seller is otherwise diminished over an extended period of time, the supply of water to Purchaser's

consumers shall be reduced or diminished in the same ratio or proportion as the supply to Seller's consumers is reduced or diminished.

5. (Modification of Contract) That the provisions of this contract pertaining to the schedule of rates to be paid by the Purchaser for water delivered are subject to modification from time to time. Any increase or decrease in rates shall be based on a demonstrable increase or decrease in the costs of performance by the seller as indicated by a cost of service study utilizing any methodology generally acceptable in the potable water industry. No increase or decrease shall be effective unless agreed to by the parties hereto or approved by the Public Service Commission of the Commonwealth of Kentucky.

6. (Regulatory Agencies) That this contract is subject to such rules, regulations, or laws as may be applicable to similar agreements in the Commonwealth of Kentucky and the Seller and Purchaser will collaborate in obtaining such permits, certificates, or the like, as may be required to comply therewith.

7. (Miscellaneous) That the construction of the water supply distribution system by the Purchaser is being financed by a loan made or insured by, and/or a grant from, the United States of America, acting through Rural Development of the United States Department of Agriculture, and the provisions hereof pertaining to the undertakings of the Purchaser are conditioned upon the approval, in writing, of the State Director of Rural Development.

8. (Successor to the Purchaser) That in the event of any occurrence rendering the Purchaser incapable of performing under this contract, any successor of the Purchaser, whether the result of legal process, assignment, or otherwise, shall succeed to the rights and obligations of the Purchaser hereunder.

9. (Non-Discrimination) Without Regard to any other provision of this Water Purchase Contract, for the purpose of avoiding any aspect of illegal discrimination, it is mutually agreed by the Seller and the Purchaser that the Purchaser, in any event, shall not be charged a water rate lower than the water rate charged any other independent water district supplied by the City of North Middletown, Kentucky.

10. (Pledge) This contract is pledged to the Rural Utility Service as part of the security for a loan or loans that may be made to the Purchaser.

11. (Sale) The parties hereto are aware of, recognize, and have taken into account the potential sale of the Water Distribution System of Seller to Kentucky American Water Company, a Kentucky Corporation, which is a utility regulated by the Commonwealth of Kentucky Public Service Commission. Purchaser agrees to abide by all rules, regulations, tariffs, and other conditions relating to Seller's purchase of water from Kentucky American Water Company, and to agree to same if and when the Water Distribution System of Seller is transferred to Kentucky American Water Company.

12. (Successors in Interest) In the event that all or any part of the water works plant and facilities of Seller which are used in meeting its obligations under this Agreement are acquired by any other entity, then and in that event Seller shall be relieved of all its obligations hereunder and, in such event, this agreement shall be binding upon the successor entity making such acquisition.

13. (Disclaimer) It is understood and agreed between Purchaser and Seller that Seller does not, by this Agreement, undertake or contract to provide fire protection for those individuals, partnerships and corporations to whom Purchaser is going to sell water furnished by Seller. Purchaser acknowledges that it is fully aware that if its customers desire fire protection or sufficient quantities of water for fire extinguishment, that it must provide the same by the construction and maintenance of appropriate facilities to render such a service and protection.

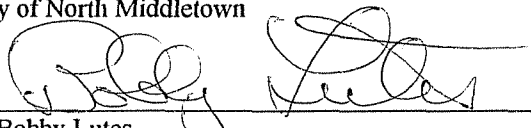
14. (Check Valves) Purchaser will install, at its sole expense, appropriately approved check valves which Purchaser must certify to Seller as approved, and which must be inspected by a certified plumber annually and certified in writing to Seller as then currently approved and properly working, all at the cost of Purchaser.

15. (Pressure) Seller shall endeavor to maintain a minimal water pressure of thirty (30) PSI at the metered connections for the maximum delivery rates specified under this agreement; however, Seller's obligation to supply water pursuant to this agreement is solely an obligation that it shall undertake to use reasonable care and diligence in order to prevent and avoid interruptions and fluctuations in the supply of water agreed to herein. Seller can not and does not guarantee, covenant or warrant that interruptions or fluctuations will not occur, or that because of emergencies due to breaks, leaks, defects, construction or necessary repair in its facilities, or caused by fires, strikes, acts of God, or other causes, there may not be periods during which the supply of water may be curtailed or interrupted. In the event of such interruptions or fluctuations, no liability of any nature shall be imposed upon Seller.

16. (Purchased Water Adjustment) Seller shall be allowed to "pass through" to Purchaser, all increases in price from its supplier, Kentucky American Water Company, and the parties agree that the provisions of 807 KAR 5:068, as now or may be in effect, (and if repealed, the most recent regulation governing the subject matter, unless replaced by another regulatory scheme, which shall then apply), "Purchased Water Adjustment for Water Districts and Water Associations" shall apply to this clause of this Agreement, and that Seller and any successor as set forth herein shall be determined to be, for purposes of that regulation, the Water District or Water Association as set forth therein.

In witness whereof, the parties hereto, acting under authority of their respective bodies, have caused this contract to be duly executed in two (2) counterparts, each of which shall constitute an original.

Seller:
City of North Middletown

By 
Bobby Lutes

Title: Mayor

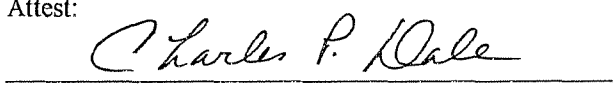
Attest:


Betsy Frazier, City Clerk

Purchaser:
Judy Water Association

By 
President

Attest:


Secretary

ADDENDUM A

TO WATER PURCHASE CONTRACT BETWEEN
CITY OF NORTH MIDDLETOWN (HEREIN THE "SELLER") AND
JUDY WATER ASSOCIATION, INC. (HEREIN THE "PURCHASER")

DATED THE ___ DAY OF OCTOBER, 1999

A. Delivery of Water. The quantity of water to not be exceeded, Two Million One Hundred Thousand (2,100,000) gallons per month, shall be delivered by Seller at the rate of Seventy Thousand (70,000) gallons per day, which per day figure shall be the agreed upon quantity of delivery subject to the provisions of subsection B hereunder, rather than the monthly figure.

B. Exceeding Maximum Quantity of Water. If the maximum quantity of water per day or per month to be furnished hereunder is exceeded in any twenty four (24) hour period, or calendar month, respectively, the Seller shall have the option of:

- (1) Terminating the supply of water to the Purchaser at all delivery points for the remainder of the day or month in which the excess occurs; or
- (2) Purchaser shall be charged an "excess usage fee" equal to four (4x) times the current minimum (dollar amount on maximum quantity usage) per thousand gallon charge under the general water rate schedule of Seller in effect at the time.

C. Delivery Points. The points of delivery shall be at the following locations:

- (1) Master meter No. 1 shall be located approximately 2,500 feet north of the intersection of KY 627 and KY 57 on Highland Farms Property, and connect to an eight (8") inch line.
- (2) Master meter No. 2 shall be located approximately 2,000 feet southwest of the intersection of US 460 and Stoney Point Road on the Douglas Witt property, and connect to a six (6") inch line.
- (3) Master member No. 3 shall be located inside of the pump station, located on the North Middletown Elementary School property on KY 3364, and connect to a six (6") inch line.

The difference in the two (2) readings of master meter No. 1 and master meter No. 2 shall be added to the reading of master meter No. 3 for the total monthly bill. These readings must take place consecutively.

- (4) A conventional below grade concrete master meter vault will contain a compound meter, strainer, swing check valve, gate valves, and a bypass line for emergencies.

D. Water Pressure at Delivery Points. The water pressure at the delivery points shall be a minimum pressure of thirty (30) pounds per square inch (30 PSI) provided, however, that the obligation of the Seller to maintain this minimum pressure shall be specifically conditioned and contingent on the Purchaser having in existence, and maintaining at all times, a "finished" water storage capacity equal to at least twenty four (24) hours current consumption, in the aggregate, of the Purchaser.

E. Geographic Boundary of Service Area. The geographic boundary or area in which any water sold and supplied to the Purchaser by the Seller may be resold and/or furnished by the Purchaser to its customers, or anyone else, is specifically limited to only water users located on property which is adjacent to the Purchaser's waterline or across public roads in Montgomery and Bourbon Counties, Kentucky; this provision shall except those customers served by the City of North Middletown, or on property adjacent to or across public roads from the City of North Middletown lines in Bourbon County, Kentucky, which property shall have the option of service by the City of North Middletown or Judy Water.

Purchaser shall not sell or supply water supplied by Seller to users located anywhere outside of the above-described geographic area.

CITY OF NORTH MIDDLETOWN
ORDINANCE 01 -2005

AN ORDINANCE AMENDING VARIOUS SECTIONS OF
THE CODE OF ORDINANCES TO INCREASE WATER
RATES.

Be it Ordained by the City of North Middletown, Kentucky:

SECTION 1. That the following Sections of the Code of Ordinances be and hereby are amended to read as follows:

400.130 RATES

a) Beginning with all water bills postmarked or otherwise delivered on or after ~~June 1, 2002~~ January 1, 2005 the following rates shall apply:

First 2,000 gallons ~~\$16.00~~ \$19.00

Next 3,000 gallons ~~\$5.50~~ \$6.50 per thousand gallon

Next 5,000 gallons ~~\$4.50~~ \$5.50 per thousand gallons

All over 10,000 gallons ~~\$3.50~~ \$4.50 per thousand gallons

b) Beginning with all sewer bills postmarked or otherwise delivered on or after ~~June 1, 2002~~ January 1, 2005, the following sewer rates shall apply:

First
2,000 gallons \$16.00 (minimum bill)

Next
3,000 gallons \$6.00 per one thousand gallons

Next
5,000 gallons \$5.00 per one thousand gallons

All over 10,000 gallons per one thousand gallons

c) Water Salesman Rate-The rate for sales from the City water Salesman shall be ~~\$9.00~~ \$11.00 per thousand gallons.

d) Industrial users of water are defined as those using in excess of one hundred thousand (100,000) gallons per month, on average, which water is ultimately consumed outside the city limit and thus exempt from city sewer charges. The rate for sales to such industrial users shall be ~~\$8.00~~ \$10.50 Dollars per 1,000 gallons.

SECTION 2. This Ordinance shall become effective upon its passage and publication in full as required by law.

Introduced on First Reading: Regular Meeting, December 16, 2004

Adopted on Second Reading: Regular Meeting, January 18, 2005

Signed by Mayor: 1-18-05

Recorded by Clerk: 1-18-05

Published in Paper in full: 1-26-05

CITY OF NORTH MIDDLETOWN

Buddy Mers
Buddy Mers, Mayor

ATTEST:

Betsy Frazier
Betsy Frazier, City Clerk

CERTIFICATION OF MUNICIPAL LEGISLATION

The undersigned, Betsy Frazier, City Clerk of the City of North Middletown, Bourbon County, Kentucky, hereby certify that the following is a true and accurate copy of City of North Middletown Ordinance #01 - 2005, enacted the 18 day of January, 2005 and effective the 26 day of January, 2005. I further certify that I am the custodian of the original of this record, which is maintained at City Hall, 223 Church Street, P. O. Box 69, North Middletown, Kentucky 40357. This certification is made pursuant to the provisions of KRS 83A.060 (14).

Done this the 30 day of March, 2006

Betsy Frazier

Betsy Frazier
City Clerk

City of North Middletown, Kentucky

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ALLEGED FAILURE OF THE CITY OF NORTH)
MIDDLETOWN TO COMPLY WITH KRS 278.160)
AND 278.180 AND THE COMMISSION'S ORDER)CASE NO.2006-00072
OF AUGUST 10, 1994 IN ADMINISTRATIVE)
CASE NO. 351)

AFFIDAVIT IN SUPPORT OF RESPONSE

Comes now Betsy Frazier, duly appointed City Clerk/Treasurer of the City of North Middletown, who after being duly sworn for her Affidavit states as follows:

1. She is the duly appointed City Clerk/Treasurer of the City of North Middletown of Bourbon County, Kentucky, having held that appointed office beginning January 1989, and extending through the date of this Affidavit.

2. During the summer of 1998, the City was approached by Judy Water Association, and officers of the Bourbon Fiscal, including the County Judge Executive and a Magistrate, requesting allowing the Judy Water Association to extend its lines to areas of Bourbon County which did not have a source of potable treated water, which would necessitate tapping the City of North Middletown line for a supply for water to secure the extended area.

3. During the summer of 1999, an agreement was negotiated between the City, the County, and Judy Water Association, whereby two million one hundred thousand (2,100,000) gallons per month, at the rate of seventy thousand (70,000) gallons per day, were to be furnished from existing eight (8") inch and six (6") inch mains.

4. The negotiated and agreed rate to be paid by Judy was \$1.95 pmg, which was exactly ten (\$.10) cents per thousand gallons over what the City of North Middletown was then paying to its supplier, Kentucky American Water Company, for water from its connection in Clintonville, Bourbon County, Kentucky.

5. After providing two million one hundred thousand (2,100,000) gallons per month, Judy Water was to be charged an excessive use fee equal to four (4X) times the current minimum dollar amount for maximum water quantity useage, per thousand gallons, which resulted in a cost to Judy Water of forty (\$.40) cents per thousand gallons over the cost of water from Kentucky American Water Company, for excess water used.

6. Prior to the completion of the water project by Judy Water and attaching to the City's line, the cost of water from Kentucky American Water Company to the City of North Middletown increased and when water supply sales from North Middletown to Judy Water began, the price was \$2.14 per one thousand gallons, again, exactly ten (\$.10) cents per thousand gallons over the cost of water purchased from Kentucky American Water.

7. At the time that the contract was made with Judy Water, the elected and appointed officials of the City of North Middletown believed that the grant of authority by the Public Service Commission to allow the extension of lines in Bourbon County by Judy Water Association, which, to the best knowledge of the City, required the approval of the Public Service Commission, would have included Judy Water providing the Commission with a copy of the contract

whereby Judy Water was to acquire the water which it was going to resell through its extended lines. Affiant has no knowledge of whether this was, in fact, true, but it was what was outlined by the officials of the Judy Water Association and the Bourbon Fiscal Court when the contract was made in 1999.

8. Attached to this Affidavit are Exhibits 1a, 1b, 1c, and 1d, which are copies of bills from Kentucky American Water Company to the City of North Middletown, with billing periods as noted: 1a) October 3, 2000 to November 2, 2000, water rate was \$1.85 pmg; 1b) November 2, 2000 to December 4, 2000, water rate was \$1.85 pmg; 1c) December 4, 2000 to January 3, 2001, water rate was \$2.03 pmg; 1d) January 3, 2001 to February 2, 2001, water rate was \$2.04 pmg.

9. The City of North Middletown received no other indication of a rate increase from Kentucky American Water Company, other than a change in rates as reflected on these billings, which was passed on to Judy Water through the provisions of paragraph #16, and which, to the understanding of the elected and appointed officials of the City of North Middletown, was "automatic," as any such rate increase from Kentucky American Water Company to North Middletown required the approval of this Commission prior to implementation. The City was not aware of anything that had to be filed with Commission, other than the contract it thought was already in place, which contained the automatic escalator set forth in paragraph #16.

10. Attached as Exhibits 2a, 2b, and 2c are water bills to Judy Water Association, from the City of North Middletown, as follows: 2a) April 10, 2001, cost of water charge: 2.14 pmg; 2b) April 26, 2001, cost of water charge: 2.14 pmg; 3c) July 1, 2001, water rate \$2.14 per thousand.

11. Attached hereto are Exhibits 3a through 3g, which are water bills from Kentucky American Water Company as follows: 3a) from October 4, 2004 to November 2, 2004, water rate was \$2.06 pmg; 3b) November 2, 2004 to December 3, 2004, water rate was \$2.09 pmg; 3c) December 3, 2004 to January 4, 2005, water rate was \$2.37 pmg; 3d) January 4, 2005 to February 2, 2005, water rate was \$2.38 pmg; 3e) February 2, 2005 to March 2, 2005, water rate was \$2.38 pmg; 3f) March 2, 2005 to April 2, 2005, water rate was \$2.26 pmg; 3g) April 2, 2005 to May 3, 2005, water rate was \$2.38 pmg.

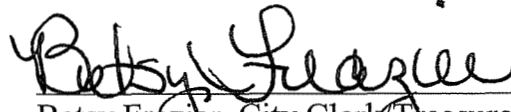
12. The City of North Middletown received no other indication of a rate increase from Kentucky American Water Company, other than a change in rates as reflected on these billings, which was passed on to Judy Water through the provisions of paragraph #16, which, to the understanding of the elected and appointed officials of the City of North Middletown, was “automatic” as any such rate increase from Kentucky American Water Company to North Middletown required the approval of this Commission prior to implementation. Knowing that the City was aware of anything had to be filed with Commission, other than the contract it thought was already in place, which contained the automatic cost escalator set forth in paragraph #16.

13. Attached as Exhibits 4a, 4b, 4c, and 4d are water bills to Judy Water Association, from the City of North Middletown, as follows: 4a) December 2004, water rate \$2.14 and \$2.44; 4b) February 8, 2005, water rates of \$2.50 per thousand and \$2.85 over 70,000, based a seventeen (17%) percent water increase which affiant gathered from television reports reflecting that Kentucky American Water was seeking a seventeen (17%) percent water rate increase; 4c) March 10, 2005, water rate \$2.33 per thousand and \$2.65 over 70,000, reflecting an 8.8% increase, which was that actually provided Kentucky American Water Company, and which overage was figured on the previous Exhibit, and allowed as a credit on this Exhibit in the amount of \$381.70; 4d) April 6, 2005, water rate \$2.33 per thousand and \$2.65 over 70,000, this is the rate charged Judy Water Association to date.

14. At no time did the City of North Middletown realize is was acting in a manner other than in conformance with the contract it had executed with Judy Water Association in 1999, including what it thought were automatic “pass thrus” of increases duly granted its supplier, Kentucky American Water Company, by the Public Service Commission of the Commonwealth of Kentucky.

15. This is the information that was provided by Judy Water Association and the Fiscal Court members, and which was the understanding of and confirmed by our Attorney, Henry Watson III, formerly of Cynthiana, Kentucky, and now of Paris, Kentucky.

Further Affiant saith naught.

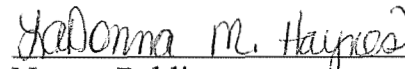

Betsy Frazier, City Clerk/Treasurer
City of North Middletown

**COMMONWEALTH OF KENTUCKY
COUNTY OF BOURBON**

Signed, sworn to and acknowledged before me, by Betsy Frazier,
Clerk/Treasurer for the City of North Middletown, this the 29th day of March
2006.

My commission expires:

July 29, 2008


Notary Public